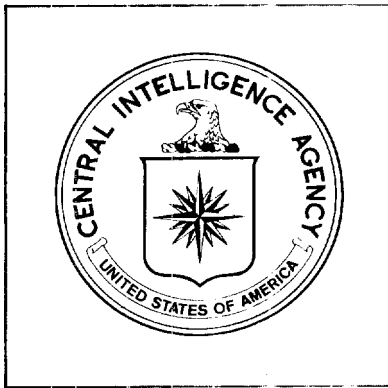


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Good Cop, Bad Cop

On the eve of consultations in Washington, the EC Commission is citing its own record of defending the Community against alleged US protectionism. It also is praising adherence to free trade principles in order to prove its good faith to Washington and dampen sentiment in Europe for retaliation.

At a meeting of the European Parliament on November 12, Commissioner Gundelach, who leads the EC delegation to the US for next week's biannual discussions, gave a balanced response to a question on protectionist measures taken or planned by the US. Gundelach stressed the distinction between protectionist measures and protectionist pressures and pointed out that so far both the US and the community have on the whole been able to avoid protectionist measures. The Commissioner maintained that over \$4.5 billion worth of community exports had been the subject of complaint in the US under its trade act and that even after the Washington administration's rejection of the complaint on steel, over \$3 billion in EC trade is still in question. He told the Parliament that, nevertheless, with a single exception affecting cheese exports to the US, Washington had not given way to protectionist pressures.

Gundelach set the tone for comment by members of the European parliament. Several speakers, including British and Dutch members of parliament as well as an Italian Communist deputy, commented on the successful efforts of the US administration to resist pressures.

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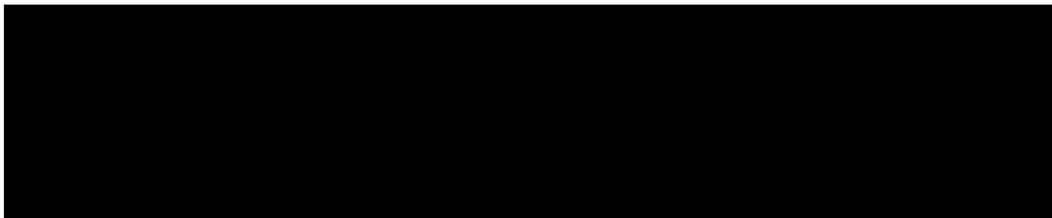
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The attitudes in Strasbourg contrast with other recent indications of EC attitudes. The possibility of EC retaliatory action has surfaced in discussions of EC officials. Late last month, Paris sent Washington a sharp aide memoire deploring that Washington had made no effort to moderate the impact of increasing protectionist claims, protesting Washington's restrictive interpretations of countervailing duty and antidumping legislation and describing US restrictions on EC cheese exports as "unjustified" and "unnecessarily detrimental."

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The US is, of course, not seen as the only potential villain in a new outbreak of protectionism. The EC is currently at odds with Sweden over Stockholm's measures to restrict shoe imports. The Commission is also trying to defuse pressures from French steel makers to restrict EC imports.

In addition, British Chancellor of the Exchequer Healey came closer this week than ever before to advocating import restrictions for the UK. He told a Labour party meeting that the British government is prepared to use "short-term selective import controls where we are satisfied it is necessary to preserve firms or sectors of industry which will be viable when recovery is under way but which could otherwise be wiped out by external competition during the recession." (SECRET NOFORN/ORCON/NO CONTRACT)

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Government Candidate Wins in Irish By-Election

The government retained its three-seat majority in parliament by winning handsomely in the West Mayo by-election on November 13. The defeat of the opposition Fianna Fail Party's candidate will be hailed in London and Dublin as popular repudiation of opposition leader Jack Lynch's recent call for the British to pull their troops out of Northern Ireland.

The government's successful handling of the Herrema kidnapping in the weeks just before the election probably provided some of the margin of victory. The attractiveness of the governments' Fine Gael candidate--a political legacy--and the general feeling that the government is doing a good job despite economic problems also helped.

The outcome may aid Lynch, who is considered a moderate. He reportedly opposed the party's statement calling for British withdrawal from Ulster but was overruled by the party's strong right-wing. With a comfortable majority--by Irish standards--Prime Minister Cosgrave is assured the option of calling elections anytime he chooses before his current term expires. (CONFIDENTIAL NOFORN)

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Portuguese Workers End Demonstration

A major test between the Portuguese government and Communist-led workers apparently ended early this morning with agreement on a new collective labor contract.

While there has been no official announcement of the details of the settlement, initial press reports say Prime Minister Azevedo bowed to the workers' wage demands. He apparently refused to fire Labor Minister Tomas Rosa, but the press says he agreed to an investigation of the labor ministry, which has been a target of the Communists in recent weeks.

The workers evidently were placated enough to end their seige of Sao Bento palace, where Azevedo had been a hostage the past two days. As many as 20,000 had participated in the demonstration that began Wednesday.

There was a danger yesterday that the workers' protest would develop into a major confrontation when the workers demanded not only a 44-percent wage hike, but also the return to power of pro-Communist former prime minister Vasco Goncalves.

Last night, several hours before the demonstration ended, President Costa Gomes appealed to a nationwide radio audience for calm and for support for the sixth provisional government.

Constituent assembly delegates, who spent Wednesday night trapped in the palace, left yesterday afternoon with the assistance of local troops. The troops refused to guarantee the safety of three assembly

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members--two leading Socialists and the conservative former air force chief, Galvao de Melo. These three remained with Azevedo after an attempt by a military helicopter to evacuate them was frustrated by the crowd.

The government will have serious problems if it has agreed to the construction workers' demand for a 44-percent wage increase, especially after details of a new austerity program were published in the Lisbon press this week. The document outlines the need for increased prices, reduced real wages, rationing of essential foodstuffs, and adjustments in the escudo exchange rate to put Portugal on the road to economic recovery.

Before implementing this program, the government will have to weigh very carefully its ability to withstand the tension the program is bound to create against the chaos that might result if something is not done to improve the economy.

The Communists have already attacked the program for demanding sacrifices of the working class. (CONFIDENTIAL)

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